

§ 652.61

12 CFR Ch. VI (1–14 Edition)

Mac's capital must be sufficient to meet statutory and regulatory requirements as well as the goals and objectives required by paragraph (b)(5) of this section, including the Tier 1 ratio required in § 652.61(c)(2)(ii)(A). Farmer Mac must notify the OSMO within 10 calendar days of determining that capital is not sufficient to meet those goals and objectives.

(b) No later than 65 days after the end of each calendar year, Farmer Mac's board of directors must adopt an operational and strategic business plan for at least the next 3 years. The plan must include:

- (1) A mission statement;
- (2) A business and organizational overview and an assessment of management capabilities;
- (3) An assessment of Farmer Mac's strengths and weaknesses;
- (4) A review of the internal and external factors that are likely to affect Farmer Mac during the planning period;
- (5) Measurable goals and objectives;
- (6) A discussion of how these factors might impact Farmer Mac's current financial position and business goals;
- (7) Forecasted income, expense, and balance sheet statements for each year of the plan;
- (8) A marketing plan, and
- (9) A capital plan in accordance with § 652.61.

§ 652.61 Capital planning.

(a) *Purpose.* This section establishes capital planning requirements for Farmer Mac.

(b) *Definitions.* For purposes of this section and § 652.62, the following definitions apply:

Basel III means the Basel Committee on Banking Supervision's document "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems," June 2011 and as it may be updated from time to time.

Capital action means any issuance of an equity capital instrument, and any capital distribution, as well as any similar action that OSMO determines could impact Farmer Mac's consolidated capital.

Capital distribution means a redemption or repurchase of any equity capital instrument, a payment of common or preferred stock dividends, a payment that may be temporarily or permanently suspended by the issuer on any instrument that is eligible for inclusion in the numerator of any minimum capital ratio, and any similar transaction that OSMO determines to

be in substance a distribution of capital.

Capital plan means a written presentation of Farmer Mac's capital planning strategies and capital adequacy process that includes the mandatory elements set forth in paragraph (c)(2) of this section.

Capital policy means Farmer Mac's written assessment of the principles and guidelines used for capital planning, capital issuance, usage and distributions, including internal capital goals; the quantitative or qualitative guidelines for dividend and stock repurchases; the strategies for addressing potential capital shortfalls; and the internal governance procedures around capital policy principles and guidelines.

Planning horizon means the period of at least 12 quarters, beginning with the quarter preceding the quarter in which Farmer Mac submits its capital plan, over which the relevant projections extend.

Tier 1 Capital means the components meeting the criteria of Common Equity Tier 1 Capital and Additional Tier 1 Capital and the regulatory adjustments as set forth in Basel III, or Tier 1 Capital as defined in regulations of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve, or the Federal Deposit Insurance Corporation, as revised from time to time; or another measure of high quality capital as approved for use under this regulation by the Director of OSMO.

Tier 1 ratio means the ratio of Farmer Mac's Tier 1 Capital to Total Risk-Weighted Assets.

Total Risk-Weighted Assets means a risk-weighting approach that is appropriate given Farmer Mac's business activities and consistent with broadly accepted banking practices and standards (e.g., one of the frameworks of the Basel Committee on Banking Supervision or similar U.S. regulations).

(c) *General requirements.* (1) *Annual capital planning.*

(i) Farmer Mac must develop and maintain a capital plan each year.

(ii) Farmer Mac must submit its complete annual capital plan to OSMO

by March 1 or such later date as directed by OSMO, after consultation with the FCA Board.

(iii) Prior to submission of the capital plan under paragraph (c)(1)(ii) of this section, Farmer Mac's board of directors must:

(A) Review the robustness of Farmer Mac's process for assessing capital adequacy;

(B) Ensure that any deficiencies in Farmer Mac's process for assessing capital adequacy are appropriately remedied; and

(C) Approve Farmer Mac's capital plan.

(2) *Mandatory elements of capital plan.* The capital plan must contain at least the following elements:

(i) An assessment of the expected uses and sources of capital over the planning horizon that reflects Farmer Mac's size, complexity, risk profile, and scope of operations, assuming both expected and stressful conditions, including:

(A) Projected revenues, losses, reserves, and pro forma capital levels, including the core capital and regulatory capital ratios required by sections 8.32 and 8.33 of the Act, the Tier 1 ratio as defined in this section, and any additional capital measures deemed relevant by Farmer Mac, over the planning horizon under expected conditions and under a range of at least two progressively severe stress scenarios developed by Farmer Mac appropriate to its business model and portfolios, as well as any scenarios provided by the Director of OSMO. At least 15 calendar days prior to this stress testing, Farmer Mac must provide to OSMO a description of the expected and stressed scenarios that Farmer Mac intends to use to conduct its annual stress test under this section.

(B) A description of all planned capital actions over the planning horizon.

(ii) A detailed description of Farmer Mac's process for assessing capital adequacy, including:

(A) A discussion of how Farmer Mac will, under expected and stressed conditions, maintain capital commensurate with its risks, maintain capital above the minimum core capital and regulatory capital ratios and above the Tier 1 ratio set in accordance with a well-

articulated risk tolerance policy established by the board of directors;

(B) A discussion of how Farmer Mac will, under expected and stressed conditions, maintain sufficient capital to continue its operations by maintaining ready access to funding, meeting its obligations to creditors and other counterparties, and continuing to serve its statutory purposes; and

(C) A discussion of the results of the risk-based stress test required by section 8.32 of the Act and the stress tests required by this section, as well as any other stress test required by law or regulation, and an explanation of how the capital plan takes these results into account.

(iii) Farmer Mac's capital policy; and

(iv) A discussion of any expected changes to Farmer Mac's business plan that are likely to have a material impact on the Corporation's capital adequacy or liquidity.

(d) *Review of capital plan by OSMO.* (1) OSMO will consider the following factors in reviewing Farmer Mac's capital plan:

(i) The comprehensiveness of the capital plan, including the extent to which the analysis underlying the capital plan captures and addresses risks stemming from activities across Farmer Mac's business lines and operations;

(ii) The reasonableness of Farmer Mac's assumptions and analysis underlying the capital plan and its methodologies for reviewing the robustness of its capital adequacy process; and

(iii) Farmer Mac's ability to maintain capital above the minimum core capital and regulatory capital ratios and above a Tier 1 ratio set in accordance with a risk tolerance policy established by the board of directors on a pro forma basis under expected and stressful conditions throughout the planning horizon, including but not limited to any stressed scenarios required under paragraphs (c)(2)(i)(A) and (c)(2)(ii) of this section.

(iv) All supervisory information about Farmer Mac and its subsidiaries;

(v) Farmer Mac's regulatory and financial reports, as well as supporting data that would allow for an analysis of its loss, revenue, and projections;

(vi) As applicable, OSMO's own pro forma estimates of Farmer Mac's potential losses, revenues, and resulting capital adequacy measurements under expected and stressful conditions, including but not limited to any stressed scenarios required under paragraphs (c)(2)(i)(A) and (c)(2)(ii) of this section, as well as the results of any other stress tests conducted by Farmer Mac or OSMO; and

(vii) Other information requested or required by OSMO, as well as any other information relevant to Farmer Mac's capital adequacy.

(e) *OSMO action on a capital plan.* (1) OSMO will review the capital plan and provide an assessment to Farmer Mac of the capital adequacy and planning process through its ongoing examination and oversight process.

(2) Upon a request by OSMO, Farmer Mac must provide OSMO with sufficient information regarding its planning assumptions, stress test strategies and results and any other relevant qualitative or quantitative information requested by OSMO to facilitate review of Farmer Mac's capital plan under this section.

(3) OSMO may require Farmer Mac to revise and re-submit its capital plan.

(f) *Farmer Mac response to OSMO's assessment.* Regardless of whether re-submission is required, Farmer Mac must take the results of the stress tests conducted under paragraphs (c)(2)(i)(A) and (c)(2)(ii) of this section (including any revisions required under paragraph (e)(3) of this section) as well as OSMO's assessment into account in making changes, as appropriate, to Farmer Mac's capital structure (including the level and composition of capital); its exposures, concentrations, and risk positions; any plans for recovery and resolution; and to improve overall risk management. Farmer Mac must document in writing its actions in response to the stress tests and assessment, as well as decisions not to take actions in response to any issues raised in the assessment.

[78 FR 65149, Oct. 31, 2013]

EFFECTIVE DATE NOTE: At 78 FR 65149, Oct. 31, 2013, § 652.61 was added, effective Jan. 3, 2014.

§ 652.62 Notice to OSMO of capital distributions.

(a) Farmer Mac must provide OSMO with notice 15 calendar days prior to a board consideration of a declaration of a capital distribution or any material changes in capital distributions policies.

(b) Except as provided in paragraph (c), notice under paragraph (a) of this section is not required with respect to capital distributions set forth (*i.e.*, specifically scheduled as to amount and timing along with a discussion of the planned distribution) in the capital plan or a regular periodic payment of dividends on common stock and preferred stock when there is no change in the amount of payment per share from the previous period.

(c) In the event that OSMO determines a capital plan has not adequately taken into account OSMO's assessment as required under § 652.61(f), the exception described in paragraph (b) of this section shall not apply, and Farmer Mac must provide notification of any and all capital distributions as set forth in paragraph (a) of this section.

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§ 652.65 Risk-based capital stress test.

You will perform the risk-based capital stress test as described in summary form below and as described in detail in appendix A to this subpart. The risk-based capital stress test spreadsheet is also available electronically at <http://www.fca.gov>. The risk-based capital stress test has five components:

(a) *Data requirements.* You will use the following data to implement the risk-based capital stress test.

(1) You will use Corporation loan-level data to implement the credit risk component of the risk-based capital stress test.

(2) You will use Call Report data as the basis for Corporation data over the 10-year stress period supplemented with your interest rate risk measurements and tax data.